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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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| In the Matter of | ) | |
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| 1998 Biennial Regulatory Review-- | ) | CC Docket No. 98-117 |
| Review of ARMIS Reporting Requirements | ) | |
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# REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY, PACIFIC BELL AND NEVADA BELL

SOUTHWESTERN BELL TELEPHONE COMPANY
PACIFIC BELL
NEVADA BELL

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Reply Comments of Southwestern Bell Telephone Company,
Pacific Bell and Nevada Bell
CC Docket No. 98-117

## SUMMARY*

Instead of only trimming a few pages from the thousands of pages of ARMIS reports, the Commission should adopt the deep cuts in regulation that Congress intended. To properly meet the requirements of Section 11, the Commission should review "all" ARMIS reporting requirements, including the network ARMIS reports, and how they may affect "any provider," including the price cap ILECs. The Commission should not retain any column, row, table or report unless it is proven to be essential for the performance of a Commission function. Even if data is useful or necessary, reporting requirements should not be retained to the extent "the costs of the regulation exceed the benefits." All things considered, meaningful cuts should be applied across-the-board to all ILECs.

Notwithstanding AT&T and MCI's arguments to the contrary, many components of ARMIS can be eliminated without impairing any of the Commission's essential functions. Detailed Class A accounting and ARMIS reporting are not necessary to prevent cross-subsidy of nonregulated activities, especially in the case of price cap ILECs. A Class B CAM is just as effective in preventing cross-subsidy as a Class A CAM. The ARMIS 43-03 report is not needed for the Commission to determine whether costs are being properly allocated because all of the necessary information is available to the independent auditors and the Commission in connection with the independent CAM audit. If the Commission needs any additional data, it can simply request it.

MCI contends that "price cap regulation has not reduced the importance of . . . cost

* The abbreviations used in this Summary are defined in the body of these Reply Comments.

allocation detail provided in the" financial ARMIS reports. The Commission has said exactly the opposite in price cap proceedings. Less burdensome and simplified accounting and reporting will not impair the Commission's ability to perform those limited price cap functions that continue to rely upon accounting costs. The ILEC has the burden of furnishing accounting and cost data to support any of the extraordinary price cap filings such as the low-end adjustment and exogenous cost changes. Even in those cases where the Commission may find accounting data to be useful in evaluating a price cap adjustment or in any other policy deliberations, it can simply request the narrowly tailored essential data. To deny simplification of accounting and reporting to price cap ILECs by reason of limited, rarely used, regulatory tools that rely upon accounting data, as suggested by MCI, would frustrate one of the two principal purposes of price cap regulation.

AT&T raises objections to simplification of ARMIS based on Section 402(c) and CC Docket No. 96-193. Section 402(c) simply required the Commission to raise the then existing reporting threshold in Part 43 based on inflation each year. It is not relevant to the simplification of ARMIS reporting pursuant to Section 11. The scope of CC Docket No. 96-193 was very limited: to revise the filing dates, adopt the inflation adjustment and other relatively minor aspects of the filing requirements. Accordingly, CC Docket No. 96-193 cannot be used as argued by AT&T as a basis to preclude a review of substantive issues under Section 11 that were not considered at all in the narrowly focused context of that proceeding.

Intense and widespread competitive pressures in the local exchange market have been providing a natural incentive to innovate and maintain the highest service quality. The Commission had a concern that price cap regulation might create incentives to reduce service

quality and network investment. The objects of its concern have not materialized. Since these original purposes are no longer served by any ongoing reporting, this reporting should be eliminated or, at a minimum, radically simplified.

MCI attempts to find new and different reasons to perpetuate these reporting burdens. The new "homes" that MCI tries to find for network ARMIS reporting include Sections 254, 706 and 251 of the 1996 Act. Contrary to MCI's contentions, network ARMIS reporting is not essential for the performance of the Commission's responsibilities under these sections. In fact, it has little, if any, practical utility in connection with these provisions.

Section 11 requires, instead of a "shot-gun" approach, a much more precise approach under which only essential data is reported. Any needed data that is not reported initially can be furnished upon request. Elimination or deep cuts in the network ARMIS reporting is especially appropriate under the Section 11 competitive standard because it is precisely because of the explosive growth in competition that ILECs now have much stronger natural incentives to innovate and maintain service quality.

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# REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY, PACIFIC BELL AND NEVADA BELL[1]

## I. INTRODUCTION.

One of the main issues presented by the comments filed on August 20, 1998 is why the NPRM has proposed such limited relief from the burden of ARMIS regulation.[2] As in the case of the Accounting Biennial Review NPRM,[3] the NPRM's proposed relief is especially limited for the largest incumbent local exchange carriers ("ILECs") who would only save a few thousand dollars each as a result of the NPRM's meager proposals for such price cap carriers.[4] Ignoring not only these most logical candidates for relief from rate-of-return style financial ARMIS reporting, the NPRM altogether ignores almost half of the ARMIS reports, i.e., the ARMIS

[1] Southwestern Bell Telephone Company, Pacific Bell and Nevada Bell ("SBC LECs") are filing these Reply Comments pursuant to the Commission's Notice of Proposed Rulemaking ("NPRM") in the above-captioned proceeding released on July 17, 1998.

[2] See, e.g., Ameritech at 4-5; Bell Atlantic at 11-13; BellSouth at 3-6; GTE at 4-10; USTA at 9-11 & Attachment C.

[3] 1998 Biennial Regulatory Review—Review of Accounting and Cost Allocation Requirements, CC Docket No. 98-81, Notice of Proposed Rulemaking, FCC 98-108, released June 17, 1998 ("Accounting Biennial Review NPRM"). Herein, the SBC LECs will refer to comments filed in CC Docket No. 98-81 by designating them as the "98-81 Comments" of a particular company.

[4] See Sprint at 2 ($6,800); GTE at 2 (less than $5,000); SBC LECs at 3 (250 hours).

43-05 through 43-08 reports. These network ARMIS reports have completed their mission of monitoring the impact of a transition to price cap regulation and should be retired. At a minimum, the data in these ARMIS reports can be radically simplified to provide only the narrowly tailored information that may be arguably essential for ongoing price cap related tasks.

Even where the NPRM proposed the broadest relief, for the mid-sized ILECs, the NPRM failed to cut all of the unnecessary detail out of the financial ARMIS reports. Further, the proper deep cuts in financial ARMIS reports should apply across-the-board to all ILECs.

Instead of only trimming a few pages from the thousands of pages of ARMIS reports, the Commission should adopt the deep cuts in regulation that Congress intended. At the rate of regulatory relief proposed in the NPRM, it would take decades before the largest ILECs see any meaningful relief.[5] Instead of this token relief, the Commission should adopt the more inclusive proposals presented by commenters, such as the elimination of network ARMIS data recommended by the SBC LECs[6] and the streamlining and consolidation of financial ARMIS reports recommended by the SBC LECs, USTA and BellSouth.[7] A single, simple report that is a few pages long can furnish all the financial data the Commission ordinarily needs beyond what is already available to the Commission outside of the ARMIS reports and what is publicly available

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[5] See Bell Atlantic at 1 (Current proposal only eliminates 6 out of 288 pages per study area for Bell Atlantic). Regarding one of these "token" proposals—electronic filing, AT&T suggests that ARMIS reports should be submitted in "LOTUS" spreadsheet format. AT&T at 2. A program-specific format should not be required. Instead, the data should be submitted in a format that any spreadsheet software can read, such as a simple ASCII file.

[6] SBC Petition for Section 11 Biennial Review, filed May 8, 1998 at 13-14 & Exhibit C ("SBC's Section 11 Petition"); SBC at 22-28.

[7] SBC LECs at 4-7, 19-21; USTA at 7-8 & Attachments A & B; BellSouth at 8-9 & Exhibits I-III.

through SEC reporting. Besides, the Commission can always ask for anything else it needs as part of an audit or other inquiry.

To properly meet the requirements of Section 11, the Commission should review "all" ARMIS reporting requirements, including the network ARMIS reports, and how they may affect "any provider," including the price cap ILECs.[8] In performing this review, the Commission should conduct a cost/benefit analysis. The Commission should not retain any column, row, table or report unless it is proven to be essential for the performance of a Commission function, which also survives Section 11 review. Even if data is useful or necessary, reporting requirements should not be retained to the extent "the costs of the regulation exceed the benefits."[9]

The SBC LECs as well as other commenters such as Bell Atlantic and GTE have demonstrated that the NPRM's rationale for limited relief for mid-sized ILECs alone does not justify that conclusion, either for accounting or reporting regulation.[10] The NPRM's analysis is flawed in significant respects, such as the NPRM's incorrect assumption that there is a greater volume of nonregulated activity at the mid-sized ILECs.[11] The NPRM's belief that detailed Class A accounting and reporting is necessary to prevent cross-subsidy and to satisfy eight

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[8] See 47 U.S.C. § 161(a).

[9] 1998 Biennial Regulatory Review—Elimination of Part 41 Telegraph and Telephone Franks, CC Docket No. 98-119, Notice of Proposed Rulemaking, FCC 98-152, released July 21, 1998, ¶ 19.

[10] See, e.g., SBC LECs at 7-19. Bell Atlantic at 10-13; GTE at 4-10.

[11] See, e.g., SBC LECs at 12-13 & Exhibit C; SBC LECs 98-81 Comments at 9-11 & Exhibit 2.

sections of the Communications Act is also mistaken, as commenters have demonstrated.[12] Its analysis also ignores the price cap regulation and more intensive local exchange competition to which the largest ILECs are subject.[13] All things considered, meaningful cuts should be applied across-the-board to all ILECs, as commenters have shown in this proceeding as well as in CC Docket No. 98-81.[14]

## II. DETAILED CLASS A ARMIS FINANCIAL REPORTING IS NOT ESSENTIAL FOR THE COMMISSION TO PERFORM ITS ONGOING DUTIES.

AT&T and MCI are opposed to any relief from the costly burden of ARMIS reporting. Even the NPRM's limited relief for mid-sized ILECs is objectionable to AT&T and MCI.[15] Opposing relief from expensive regulatory requirements applicable only to the ILECs may be a wise business strategy for AT&T and MCI, but their multiple, shallow reasons do not withstand close scrutiny. Further, if applied to the price cap ILECs, AT&T's opposition to regulatory relief would be inconsistent with its own efforts to seek relief from detailed regulation after it became subject to price cap regulation.[16]

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[12] See, e.g., SBC LECs at 14-19; SBC LECs 98-81 Comments at 11-17; BellSouth 98-81 Comments at 9-13; Bell Atlantic 98-81 Comments at 4-5.

[13] SBC LECs 98-81 Comments at 11.

[14] See, e.g., Ameritech at 6-8; BellSouth at 2-6 & Appendix A; GTE at 4-10; SBC LECs at 7-19; Ameritech 98-81 Comments at 4-11; BellSouth 98-81 Comments at 5-10; GTE 98-81 Comments at 3-12; USTA 98-81 Comments at 6-12.

[15] AT&T at 4; MCI at 4-7.

[16] See Motion of AT&T Corp. To Be Reclassified as a Non-Dominant Carrier, Order, 11 FCC Rcd 3271 ¶16 (1995).

In its opposition to ARMIS relief for mid-sized ILECs, MCI relies on the same pretexts that it provided in CC Docket 98-81 for denying relief from detailed Class A accounting.[17] The SBC LECs refuted these pretexts in their Reply Comments filed on August 4, 1998 in CC Docket No. 98-81.[18] For purposes of responding to the same MCI arguments raised here, a copy of the SBC LECs 98-81 Reply Comments is attached as Exhibit A. MCI's new or expanded reasons for denying relief are addressed below.

Notwithstanding AT&T and MCI's arguments to the contrary, detailed Class A ARMIS reporting is not essential for any of the reasons given in the NPRM or in their comments. Many components of ARMIS can be eliminated without impairing any of the Commission's essential functions.[19]

The SBC LECs have explained extensively why detailed Class A accounting and ARMIS reporting are not necessary to prevent cross-subsidy of nonregulated activities, especially in the case of price cap ILECs.[20] And yet, AT&T and MCI continue to argue that Class A accounts and detailed ARMIS reporting are needed for purposes of the cost allocation rules.[21] As the SBC LECs and others have explained, a Class B CAM is just as effective in preventing cross-subsidy

[17] MCI 98-81 Comments at 3-5.

[18] SBC LECs 98-81 Reply Comments at 4-8.

[19] See SBC at 4-7, 19-28.

[20] See SBC LECs at 4-7, 14-21; SBC LECs 98-81 Comments at 5-6, 11-17, 19-24; SBC LECs 98-81 Reply Comments at 4-5.

[21] See MCI at 3, 6-7; AT&T at 6.

as a Class A CAM.[22] Further, detailed reporting of the CAM data is not necessary because the independent auditors and Commission staff review the internal CAM process and data in connection with the CAM audit pursuant to Section 64.904 of the Commission's Rules.[23]

MCI contends that the ARMIS 43-03 report is needed for the Commission to determine whether costs are being properly allocated.[24] For example, MCI believes this report is needed for the Commission to monitor the use of the various allocation methods permitted by the Joint Cost Order, including whether ILECs are using direct assignment whenever possible.[25] On the contrary, aside from the greatly diminished relevance of cost allocation under price cap regulation, the Commission does not need any of this data to be reported through ARMIS because all of the necessary information is available to the independent auditors and the Commission in connection with the independent CAM audit pursuant to Section 64.904. In fact, typically this type of data is included in the CAM audit work papers submitted to the Commission.[26] In addition, the CAM itself indicates the extent to which ILECs are using direct assignment. Reviews of data such as this really have no significance outside of the CAM audit, especially for price cap ILECs. However, if the Commission needs any data concerning the CAM outside of the CAM audit process, it can simply request it on an as needed basis. In view

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[22] See, e.g., SBC LECs 98-81 Reply Comments at 4-5; Ameritech 98-81 Comments at 7; GTE 98-81 Comments at 10.

[23] 47 C.F.R. § 64.904.

[24] MCI at 6.

[25] Id. at 6-7.

[26] See Sprint at 1, 4.

of the alternatives, MCI has not shown that ongoing reporting of intricate details by a handful of the ILECs that are subject to the Joint Cost Order would serve any useful purpose, especially given that these are the ILECs that are subject to price cap regulation.

Citing the low-end adjustment, exogenous cost changes, carrier-initiated rate increases above the cap, the SLC and price cap monitoring, MCI contends that "price cap regulation has not reduced the importance of the accounting information and cost allocation detail provided in the" financial ARMIS reports.[27] The Commission has said exactly the opposite in price cap and other proceedings. For example, the Commission recently stated that one of the two principal reasons for adopting price cap regulation was that the rate-of-return regulation it replaced "required administratively burdensome cost allocation rules to enforce."[28] To fulfill the anticipated benefits of price cap regulation, the Commission should reject MCI's suggestion that continuation of the same administratively burdensome rate-of-return cost allocation rules continues to be equally important for no-sharing price cap ILECs. In fact, while MCI says that the importance of administratively burdensome cost allocation has not been "reduced,"[29] the Commission stated just last year in the price cap proceeding:

> [E]limination of sharing reduces our reliance on, and thus the importance of, jurisdictionally separated embedded costs. [I]n a competitive marketplace, decisions are governed by economic costs and economic depreciation rates.

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[27] MCI at 4 (emphasis added).

[28] 1998 Biennial Regulatory Review—Part 61 of the Commission's Rules and Related Tariffing Requirements, CC Docket No. 98-131, Notice of Proposed Rulemaking, FCC 98-164, released July 24, 1998, n.23.

[29] MCI at 4.

> Reduced reliance on accounting costs thus facilitates our transition to the competitive paradigm of the 1996 Act.[30]

Admittedly, the Commission has not completely eliminated reliance on accounting costs, but their importance has been reduced significantly and none of the regulatory mechanisms identified by MCI justify continuation of ARMIS reports. Less burdensome and simplified accounting and reporting will not impair the Commission's ability to perform those limited price cap functions that continue to rely upon accounting costs. For example, the ILEC has the burden of furnishing accounting and cost data to support any of the extraordinary price cap filings such as the low-end adjustment and exogenous cost changes. Given that most ILECs rarely, if ever, make such filings, it is not necessary to require ongoing continuous reporting of voluminous accounting data. Even in those cases where the Commission may find accounting data to be useful in evaluating a price cap adjustment, it can simply request the narrowly tailored essential data on an as needed basis. It is not justifiable or efficient to continue requiring voluminous financial ARMIS reports to be prepared merely for purposes of occasional use of selected data that could much more easily be produced if and when it is needed. The same holds true for any other policy deliberations envisioned by MCI that might need to consider accounting data;[31] the Commission can obtain the specific information it needs on the specific issue being considered, without requiring an annual download of all Class A accounting data.

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[30] Price Cap Performance Review of Local Exchange Carriers, CC Docket No. 94-1, 12 FCC Rcd 16642 ¶ 152 (1997) (emphasis added).

[31] MCI at 5-6.

To deny simplification of accounting and reporting to price cap ILECs by reason of limited, rarely used, regulatory tools that rely upon accounting data, as suggested by MCI, would frustrate one of the two principal purposes of price cap regulation. Besides, it would be inconsistent with the streamlining of redundant regulation that is the main target of Section 11.[32]

MCI also contends that the Commission needs all of the ARMIS accounting data for purposes of monitoring "the ILECs' interstate earnings as part of its overall evaluation of the reasonableness of the price cap regime."[33] The Commission does not need all of the detailed financial data in the ARMIS 43-01 through 43-04 reports to evaluate the price cap regime. The simple report recommended by the SBC LECs in their Comments[34] would provide all of the summary data necessary to monitor interstate earnings under price cap regulation. If the Commission has questions about these reports, it can always request additional narrowly focused information on a specific subject.

The variety of reasons argued by MCI and AT&T do not justify retaining all of the thousands of pages of financial ARMIS reports filed by ILECs each year. Upon a closer analysis, one can see that the vast majority of the ARMIS details are not essential for any ongoing Commission regulatory function. In many cases, a much simpler alternative would be

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[32] Although AT&T does not reach any issues under price cap regulation, it likewise opposes elimination of ARMIS components. For example, AT&T contends that Table B-5 of the ARMIS 43-02 report should not be eliminated because it can be used to review the appropriateness of depreciation accounts. AT&T, n.3. AT&T's argument is directed at the NPRM's proposal to eliminate 21 tables from the ARMIS 43-02 report for mid-sized ILECs, which are still rate-of-return regulated. Even if valid, its argument does not justify retention of ARMIS accounting detail or depreciation regulation in the case of price cap ILECs.

[33] MCI at 5.

[34] SBC at 19-21 & Exhibit B.

for the Commission merely to request the specific data it needs when it is needed. In fact, by focusing on the specific information actually needed, the Commission obtains more useful information in a more efficient manner. The greatly simplified report recommended by the SBC LECs provides more than sufficient data for policy functions such as monitoring price cap regulation.

For these reasons, the Commission should simplify the financial ARMIS reports across-the-board for all ILECs as recommended by the SBC LECs, USTA and other ILECs.

## III. SECTION 402(C) AND CC DOCKET NO. 96-193 DO NOT LIMIT THE COMMISSION'S SECTION 11 REVIEW AND SIMPLIFICATION OF ARMIS.

AT&T raises additional objections to simplification of ARMIS reporting based on Section 402(c) of the 1996 Act[35] and the proceeding that implemented that statutory provision, CC Docket No. 96-193.[36] The focus of Section 402(c) and CC Docket No. 96-193 was very narrow. Section 402(c) simply requires that

> [I]n establishing reporting requirements pursuant to Part 43 of its regulations . . . the Commission shall adjust the revenue requirement to account for inflation . . ..

AT&T argues that adopting a $7 billion threshold between the two levels of ARMIS reporting proposed in the NPRM "is inconsistent with the fact that under the 1996 Act Congress established a uniform threshold calibrated to inflation for determining which carriers would be

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[35] Telecommunications Act of 1996, § 402(c), 110 Stat. 56 (1996).

[36] Reform of Filing Requirements and Carrier Classifications, CC Docket No. 96-193, Order and Notice of Proposed Rulemaking, 11 FCC Rcd 11716 (1996) (the "CAM/ARMIS Filing Requirements NPRM"), Report and Order, 12 FCC Rcd 8071 (1997) (the "CAM/ARMIS Filing Requirements R&O").

subject to full ARMIS reporting . . .."[37]

On the contrary, nowhere in Section 402(c) is there any mention of "full" or partial ARMIS reporting. Rather Section 402(c) simply required the Commission to raise the then existing threshold in Part 43 based on inflation each year. For certain ARMIS reports, that threshold merely determines when an ILEC that is approaching the threshold will be required to begin filing those specific reports. It is not relevant to the simplification of ARMIS reporting pursuant to Section 11.

In fact, as some commenters noted, the NPRM does not propose to disturb the "indexed revenue threshold" established in CC Docket No. 96-193 (currently $112 million).[38] Even if the NPRM's $7 billion proposal were adopted, any ILEC that reaches the $112 million threshold would be required to file ARMIS reports, albeit in simplified form. Section 402(c) does not prevent the Commission from establishing different levels of ARMIS reporting for different types of ILECs, nor does it limit the Commission's obligation to review and simplify all of its regulations every two years under Section 11. That Section 11 obligation is applicable to ARMIS reporting no less than any other regulation. Thus, contrary to the implication of AT&T's argument, it would not be inconsistent with Section 402(c) for the Commission to eliminate certain ARMIS reports that are currently indexed or to simplify the ARMIS reporting requirements for price cap ILECs to the extent they are no longer necessary in the public interest in the case of such ILECs.

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[37] AT&T at 5.

[38] See, e.g., Cincinnati Bell at 5; NPRM, ¶ 7.

AT&T also argues that simplification of ARMIS is contrary to the Commission's "findings" in CC Docket No. 96-193.[39] For example, AT&T quotes some of CC Docket No. 96-193's brief, general references to the reasons for having some of the ARMIS reports.[40] AT&T also quotes the following from the Commission's decision on how to adjust the filing threshold for inflation:

> [F]or carriers with annual revenues in excess of this threshold . . ., the benefits to ratepayers outweigh the cost to those carriers of requiring compliance.[41]

The scope of CC Docket No. 96-193 was very limited. It was only intended to revise the filing dates, adopt the inflation adjustment and other relatively minor aspects of the CAM and ARMIS filing requirements.[42] Accordingly, the Commission's reasoning and conclusions on those narrow issues cannot preclude a comprehensive review of ARMIS reporting requirements in the very different context of Section 11. In CC Docket No. 96-193, the Commission did not even purport to apply Section 11 criteria. In fact, the Commission rejected suggestions to eliminate or forbear from requiring certain ARMIS reporting as involving "issues beyond the scope of this proceeding."[43]

Accordingly, CC Docket No. 96-193 cannot be used as argued by AT&T as a basis to preclude a review of substantive issues under Section 11 that were not considered at all in the

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[39] AT&T at 5.

[40] Id. at 5-6.

[41] CAM/ARMIS Filing Requirements R&O, ¶ 70.

[42] See id.

[43] Id., n. 4.

narrowly focused context of that proceeding.

## IV. DETAILED SERVICE AND INFRASTRUCTURE MONITORING ARE NOT NECESSARY.

Particularly since the 1996 Act, intense and widespread competitive pressures in the local exchange market have been providing a natural incentive to innovate and maintain the highest service quality. Price cap regulation can most closely replicate a competitive market insofar as reporting is concerned by not requiring only one group of competitors to publish sensitive data and by allowing the natural competitive pressure to drive innovation and service quality. The original purposes of service quality and infrastructure reporting are no longer being served. The Commission had a concern that price cap regulation might create incentives to reduce service quality and network investment. As the Commission has acknowledged, the objects of its concern have not materialized.[44] Since these original purposes are no longer served by any ongoing reporting, this reporting should be eliminated. Even if it is not eliminated entirely, the Commission should conclude, at a minimum, that the need for this reporting is substantially reduced as a result of competition, and thus, should be radically simplified. The SBC LECs, BellSouth and USTA have furnished proposals to eliminate many of the least useful portions of these reports.[45]

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[44] See Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, 10 FCC Rcd 8961 ¶¶62, 365 (1995); Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, 12 FCC Rcd 16642 ¶184 (1997) ("[W]e addressed this issue and found that there were no significant changes in service quality since we adopted price caps. Nothing in this record convinces us to alter that conclusion").

[45] SBC LECs at 22-28 & Exhibit A at 3-6; BellSouth at 10-16 & Exhibits IV-VI; USTA at 9-11 & Attachment C.

Since the original reason for having these reports no longer justifies them, especially when weighed against their burden, MCI attempts to find new and different reasons to perpetuate these reporting burdens. The Commission should reject these attempts.

Quoting a 1995 price cap order, MCI claims the Commission has "indicated that it intends to maintain, if not expand, the service quality and infrastructure reports."[46] Actually, the order cited by MCI concluded that changes to this reporting were still under review and would be deferred. The industry has experienced an incredible amount of change since 1995 and Section 11 now requires the Commission to take a hard look at burdensome regulations, especially those that are no longer justified by their original purposes.

The new "homes" that MCI tries to find for network ARMIS reporting include Sections 254, 706 and 251 of the 1996 Act.[47] MCI is wrong when it claims that the network ARMIS reporting is "essential to the Commission's exercise of its statutory responsibilities."[48] These sections of the 1996 Act apply to all ILECs, not just the handful of price cap ILECs that file network ARMIS reports. If MCI were correct that the Commission could not comply with these sections without the network ARMIS reports, then the Commission would need to require network ARMIS reports not only from all ILECs, but also from all local service providers, including MCI, given that Section 706 applies to all service providers. Especially in the case of

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[46] MCI at 8.

[47] 47 U.S.C. §§ 251, 254 & 706.

[48] MCI at 8.

new, emerging data services, with regard to which no carrier is dominant, it would be discriminatory to apply reporting requirements only to the ILECs or to certain ILECs.

Contrary to MCI's contentions, network ARMIS reporting is not essential for the performance of the Commission's responsibilities under these sections. In fact, it has little, if any, practical utility in connection with these provisions, as the SBC LECs and other commenters in AAD File Nos. 98-22 & 98-23 explained earlier this year.[49] Any reporting that is essential for purposes of these sections should be considered in the context of proceedings under those sections, should be narrowly focused on data that is essential for those sections, and should apply to all ILECs or service providers that are subject to the statutory provision.

Regarding Section 254, MCI claims that the Commission needs the ARMIS report to periodically establish a definition of universal service.[50] In the Universal Service Order, the Commission recognized that there are a variety of sources of data concerning services being deployed, including surveys or questionnaires the Commission and the states could send to the entire industry.[51] The Commission also recognized that "complying with reporting requirements is burdensome."[52] In light of these alternate sources, the heavy burden of ARMIS reporting and the obligation to streamline non-essential regulations under Section 11, the Commission should

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[49] See, e.g., Bell South Reply Comments, AAD File Nos. 98-22 & 98-23, filed May 15, 1998, at 4-7; SBC LEC's Reply Comments, AAD File Nos. 98-22 & 98-23, filed May 15, 1998, at 5-17; US West Reply Comments, AAD File Nos. 98-22 & 98-23, filed May 15, 1998, at 12-13.

[50] MCI at 8.

[51] Universal Service Order, 12 FCC Rcd 8776, 8836 ¶107 (1997).

[52] Id.

reject attempts to perpetuate the full panoply of network ARMIS reporting based on Section 254. In any event, any reporting or surveys for Section 254 purposes should be taken up in a Section 254 proceeding.

Likewise, the network ARMIS reports should not be retained or expanded for purposes of Section 706. How the Commission should obtain any data it needs for purposes of Section 706 is being considered in the Section 706 Notice of Inquiry[53] and the SBC LECs will address that subject there. But ongoing network ARMIS reporting should not be retained on the tenuous theory that some of the reported data may someday have some limited value for purposes such as Section 706. If ARMIS data is not determined to be essential now, the Commission should proceed to eliminate it.

Network ARMIS data would also serve no purpose under Section 251. It is not at all clear how MCI believes collection of detailed network ARMIS data from a handful of ILECs would be used to enforce the nondiscriminatory access requirements that are applicable to all ILECs. In fact, the Commission is considering a more focused reporting requirement under Section 251 in CC Docket No. 98-56.[54] That proceeding should be the vehicle for adopting any reporting requirements needed to assure that all ILECs comply with Section 251. After biennial

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[53] Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996, CC Docket 98-146, Notice of Inquiry, FCC 98-187, released August 7, 1998, ¶84.

[54] See Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance, CC Docket No. 98-56, RM-9101, Notice of Proposed Rulemaking, FCC 98-72, released April 17, 1998.

review of reporting requirements, the Commission should not retain multiple, redundant reports, especially when they are not narrowly tailored to accomplish specific objectives.

Given that price cap regulation no longer requires detailed network ARMIS data, neither should the Commission attempt to justify retention of these reports on the basis of the various statutory provisions cited by MCI. Section 11 requires, instead of a "shot-gun" approach under which massive quantities of information are reported even though the vast majority will never be used, a much more precise approach under which only essential data is reported. Any needed data that is not reported initially can be furnished upon request.

Elimination or deep cuts in the network ARMIS reporting is especially appropriate under the Section 11 standard, which requires streamlining of any regulation which is no longer necessary as a result of meaningful economic competition between service providers. It is precisely because of the explosive growth in competition that ILECs now have much stronger natural incentives to innovate and maintain service quality. The new ADSL and other high-speed data services that ILECs are attempting to offer is one example of innovation driven by competitive necessity. Other evidence of competition includes the large number of interconnection and resale agreements ILECs have implemented with CLECs (over 370 at the SBC LECs) and the losses of access lines to these CLECs. If ILECs do not maintain quality service or provide new demanded services, dissatisfied customers will be driven to the competitors. It is for these reasons that price cap regulation no longer needs a "safety net" for a theoretical concern that this type of regulation might cause a decline in service quality or infrastructure investment. The Commission should no longer worry about price cap ILECs' service quality or infrastructure investment because the marketplace will provide all of the necessary checks and balances.

## V. CONCLUSION.

When AT&T says that the "NPRM fails to set forth any valid basis for relieving the mid-sized LECs from detailed ARMIS filing obligations,"[55] it has misstated the approach required by Section 11. Under Section 11, the Commission has the duty to review all regulations to decide whether there is any reason to retain them. Even if it finds a reason for having a regulation, the Commission must consider whether the benefits of that regulation outweigh the resulting costs to the carriers and the Commission.

To simplify accounting and ARMIS reporting for all ILECs, and especially for price cap ILECs, the Commission need only acknowledge that detailed accounting and ARMIS reporting are no longer essential for the Commission's performance of its responsibilities. Class B accounts and far simpler ARMIS reports are fully sufficient to enable the Commission to perform its responsibilities, especially in the case of price cap ILECs whose costs do not need to be closely monitored under an outdated financial reporting system designed for full rate-of-return regulation.

Simplification of ARMIS reporting has the dual advantage of reducing ILEC and Commission costs. In fact, while no one has even attempted to quantify the minimal benefits of these regulations, various ILECs have estimated the significant direct cost of ARMIS reporting: Ameritech, $1.7 million;[56] Bell Atlantic, $1 million;[57] Cincinnati Bell, $283,000 or 5,000 hours;[58]

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[55] AT&T at 4.

[56] Ameritech at 4.

[57] Bell Atlantic at 5.

[58] Cincinnati Bell at 2.

Sprint over $1 million;[59] SBC LECs, 25,000 hours;[60] US West, 6,900 hours.[61] These costs are significant, especially as they add up and grow year after year, and do not include the cost to the taxpayer of the Commission's work after it receives these reports.[62]

Given that the Commission can do its job with Class B accounts and much less reporting, continuing to require ILECs to incur all of these costs is not justified. And, continuing to impose this full cost burden on the price cap ILECs, while reducing it for the rate-of-return mid-sized ILECs, is completely irrational.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY
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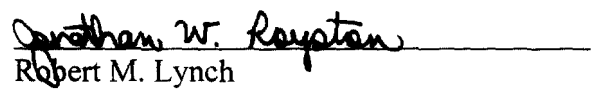
NEVADA BELL



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[59] Sprint at 4.

[60] SBC LECs at 3.

[61] US West at 6.

[62] As Bell Atlantic notes, these costs do not include the even greater cost of complying with the underlying Part 32 accounting regulation. Bell Atlantic, n.4.

EXHIBIT A

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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|---|---|---|
| In the Matter of | ) | |
| | ) | |
| 1998 Biennial Regulatory Review-- | ) | CC Docket No. 98-81 |
| Review of Accounting and Cost | ) | |
| Allocation Requirements | ) | |
| | ) | |
| United States Telephone Association | ) | ASD File No. 98-64 |
| Petition for Rulemaking | ) | |

TO: THE COMMISSION

# REPLY COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY, PACIFIC BELL AND NEVADA BELL

SOUTHWESTERN BELL TELEPHONE COMPANY
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